

## Message Text

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PAGE 01 PORT M 00410 050427Z

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ACTION EA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

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SIL-01 DODE-00 PA-02 PRS-01 PM-03 SAM-01 L-02 H-02

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R 050231Z MAY 75

FM AMCONSUL PORT MORESBY

TO SECSTATE WASHDC 492

INFO AMEMBASSY CANBERRA

UNCLAS PORT MORESBY 0410

E.O. 11652: NA

TAGS: EFIN, PP

SUBJECT: PNG INTRODUCES KINA AND TOEA APRIL 19

REF: PORT MORESBY A-27 NOV. 8, 1974

1. SUMMARY: THE PAPUA NEW GUINEA KINA AND TOEA (PRONOUNCED TOYA) REPLACED THE AUSTRALIAN DOLLAR AND CENTS AS THE LEGAL TENDER IN PAPUA NEW GUINEA APRIL 19. THERE WILL BE DUAL CURRENCIES, BOTH AUSTRALIANA AND PNG, UNTIL DECEMBER 31, 1975, WHEN ALL AUSTRALIAN CURRENCY WILL BE FULLY WITHDRAWN. THE GPNG IS PLANNING TO CREATE ITS FOREIGN EXCHANGE RESERVES BY USING THE WITHDRAWN AUSTRALIAN CURRENCY AS A BASIS. FINANCE MINISTER JULIUS CHAN SAID AT OPENING CEREMONY THAT GOVERNMENT HAD DECIDED ON "HARD CURRENCY" APPROACH TO PNG KINA. THIS WILL MEAN SOME HARD CHOICES FOR BOTH GOVERNMENT AND PEOPLE USED TO RELYING ON GOA FINANCIAL SUPPORT. END SUMMARY.

2. IN A COLORFUL CEREMONY WHICH INCLUDED THE CHIEF  
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PAGE 02 PORT M 00410 050427Z

MINISTER MICHAEL SOMARE, FINANCE MINISTER JULIUS CHAN,

AND GOVERNOR OF THE BANK OF PAPUA NEW GUINEA HENRY TOROBERT, THE PNG KINA AND TOEA WERE INTRODUCED APRIL 19, 1975. THE CHIEF MINISTER AND OTHER NOTABLES EXCHANGED THEIR AUSTRALIAN CURRENCY FOR THE NEW PNG CURRENCY ON THAT DAY ALTHOUGH THE NEW MONEY WAS NOT AVAILABLE TO THE GENERAL PUBLIC UNTIL BANKS REOPENED MONDAY, APRIL 21. THE PNG CURRENCY IS A DECIMAL CURRENCY AND, AT THIS STAGE, EXACTLY EQUIVALENT TO THE AUSTRALIAN DOLLAR. SIX COINS: 1, 2, 5, 10, AND 20 TOEA PIECES AND THE 1 KINA COIN AND 3 BANKNOTES: K2, K5 AND K10 NOTE DENOMINATIONS ARE IN CIRCULATION. THE BANK IS IN THE PROCESS OF DESIGNING A K20 NOTE WHICH WILL BE INTRODUCED LATER.

3. IN A SPEECH GIVEN AT THE OPENING DAY CEREMONY, CHAN SAID, "A 'HARD CURRENCY' STRATEGY MEANS TAKING DELIBERATE ACTION TO ENSURE THAT THE EXTERNAL VALUE OF OUR CURRENCY DOES NOT WEAKEN. THIS REQUIRES TWO THINGS: THE ACCUMULATION AND MAINTENANCE OF ADEQUATE INTERNATIONAL RESERVES TO ASSURE THE CREDIBILITY OF SUCH A POLICY, AND APPROPRIATE INTERNAL POLICIES OF ECONOMIC MANAGEMENT." THE GPNG AND GOA ARE ENGAGED IN DISCUSSIONS OVER WHAT IS A FAIR AND APPROPRIATE LEVEL OF RESERVES. CHAN ESTIMATES WITHDRAWAL OF AUSTRALIAN CURRENCY WILL RESULT IN AN INITIAL HARD CURRENCY RESERVE OF APPROXIMATELY ADOLS 67 MILLION WHICH IS NOT SUFFICIENT. CHAN SAID THAT ADEQUATE RESERVES AT THE OUTSET WOULD ENABLE THE COUNTRY TO RUN DEFICITS AS WELL AS SURPLUSES IN THE EARLY YEARS OF THE NEW CURRENCY, BUT WOULD NOT BE USED TO EMBARK ON SPENDING PROGRAMS GREATER THAN PNG COULD EITHER AFFORD OR SUSTAIN.

4. IN THE SHORT RUN, CHAN STATES, WAGES AND SALARIES WILL CONTEND WITH GOVERNMENT PROGRAMS FOR LIMITED RESOURCES. NEITHER WILL RECEIVE A SUFFICIENT AMOUNT TO SATISFY EVERYONE. THE COUNTRY WILL HAVE TO GENERATE MORE WEALTH AT THE VILLAGE LEVEL AND THROUGH JUDICIOUS EXPLOITATION OF NATURAL RESOURCES IN ORDER TO MAINTAIN THE STRENGTH OF THE KINA.

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PAGE 03 PORT M 00410 050427Z

5. THE MINISTER FOR FINANCE ALSO DISCUSSED EXCHANGE SUPPORT AND CONTROL. HE SAID THE KINA WOULD INITIALLY HAVE A CLOSE LINK TO THE AUSTRALIAN DOLLAR DUE TO THE "SPECIAL ECONOMIC RELATIONSHIP" WITH AUSTRALIA. AND THE KINA SHOULD AT LEAST MAINTAIN ITS VALUE AGAINST MAJOR WORLD CURRENCIES. EXCHANGE CONTROLS WILL NOT BE ENACTED DURING THE DUAL CURRENCY PERIOD. AFTER DECEMBER 31 THERE WILL NEED TO BE CONTROL OVER

REMITTANCES TO ALL FOREIGN COUNTRIES INCLUDING AUSTRALIA. CHAN SAID THE PRECISE NATURE OF THE CONTROLS WILL BE CONSIDERED OVER THE NEXT FEW MONTHS. HE ASSURED LISTENERS THAT EXCHANGE CONTROLS WOULD NOT BE USED TO LIMIT THE REMISSION OF FUNDS EARNED BY FOREIGNERS WORKING IN PAPUA NEW GUINEA.

6. COMMENT: THE GPNG PREDICTABLY HAS CHOSEN A CONSERVATIVE FISCAL APPROACH WHICH SHOULD HELP ALLAY DIS-QUIET AMONG EXPATRIATES THAT AT THE END OF THE DUAL CURRENCY PERIOD THEY WILL BE UNABLE TO REMIT EARNINGS ABROAD. FINANCE MINISTER CHAN OBVIOUSLY WANTS THE GOA TO PROVIDE ENOUGH INITIAL RESERVES TO WITHSTAND SIGNIFICANT OUTFLOWS OF FUNDS IMMEDIATELY AFTER DECEMBER 31. MOST PEOPLE EXPECT CAPITAL FLIGHT, IF IT TAKES PLACE AT ALL, TO DO SO BEFORE THE DECEMBER 31 CUTOFF DATE. AFTERWARD, THE KEY QUESTION WILL BE THE MAGNITUDE OF ANNUAL REMITTANCES ABROAD BY FOREIGNERS PLUS NECESSARY EXPENDITURES BY GOVERNMENT AND PRIVATE INDIVIDUALS. SHOULD THE COMBINED DEMAND FOR IMPORTED GOODS AND OUTFLOW OF FUNDS FROM REMITTANCES ABROAD PROVE TO BE EXCESSIVE, THE GOVERNMENT WILL BE FORCED TO REVIEW ITS POSITION. AT THIS STAGE, WITH SOME GOOD LUCK AND CONTINUED GOOD MANAGEMENT, THE GPNG SHOULD BE ABLE TO AVOID ESTABLISHING CURRENCY RESTRICTIONS WHICH WILL INEVITABLY LEAD TO A SHARP DETERIORATION IN THE INVESTMENT CLIMATE OF PAPUA NEW GUINEA. END COMMENT.  
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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** LOCAL CURRENCIES, CURRENCIES, FOREIGN EXCHANGE CONTROLS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 05 MAY 1975  
**Decaption Date:** 01 JAN 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Authority:** n/a  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 JAN 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975PORTM00410  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Film Number:** D750156-0549  
**From:** PORT MORESBY  
**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1975/newtext/t19750581/aaaacvxz.tel  
**Line Count:** 143  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION EA  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** 75 PORT MORESBY A-27, 75 NO8, 75 1974  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ShawDG  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 14 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <14 JUL 2003 by SilvaL0>; APPROVED <04 MAR 2004 by ShawDG>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
05 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** PNG INTRODUCES KINA AND TOEA APRIL 19  
**TAGS:** EFIN, PP, AS  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006